

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**

**AUDIT REPORT**

**JUNE 30, 2009**

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**TABLE OF CONTENTS**

	PAGE
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1-3
Independent Auditor's Report	4-5
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Assets as of June 30, 2009	6
Statement of Activities for the Year Ended June 30, 2009	7-8
FUND FINANCIAL STATEMENTS	
Balance Sheet-Governmental Funds as of June 30, 2009	9-10
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	11
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds-for the Year Ended June 30, 2009	12-17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Government-wide Statement of Activities	18
Balance Sheet-Proprietary Funds as of June 30, 2009	19
Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary Fund-for the Year Ended June 30, 2009	20
Statement of Cash Flows-Proprietary Funds-For the Year Ended June 30, 2009	21-22
Statement of Fiduciary Net Assets-Fiduciary Funds as of June 30, 2009	23
Statement of Changes in Fiduciary Net Assets-Fiduciary Funds-For the Year Ended June 30, 2009	24
Notes to Financial Statements	25-46
Schedule of Current Audit Findings	47
Schedule of Prior Audit Findings	48

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

School Board  
Lake Preston School District No. 38-3  
Kingsbury County, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lake Preston School District No. 38-3, Kingsbury County, South Dakota, as of and for the fiscal year ended June 30, 2009 which collectively comprise Lake Preston School District's basic financial statements, and have issued my report thereon dated December 3, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Lake Preston School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency

is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. I consider the deficiency described in the accompanying schedule of current audit findings to be a significant deficiency in internal control over financial reporting. This is numbered 2009-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

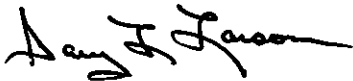
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiency described above is a material weakness. See finding number 2009-01.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Preston School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Lake Preston School District's response to the findings identified in my audit is described in the accompanying schedule of current audit findings. I did not audit Lake Preston School District's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of the South Dakota Legislature, the governing board and management of Lake Preston School District No. 32-2 and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Gary J. Larson". The signature is fluid and cursive, with a long horizontal stroke at the end.

December 3, 2009

**INDEPENDENT AUDITOR'S REPORT**

School Board  
Lake Preston School District No. 38-3  
Kingsbury County, South Dakota

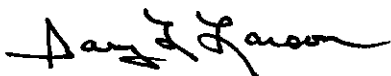
I have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund and the aggregate remaining fund information of Lake Preston School District No. 38-3, Kingsbury County, South Dakota, as of June 30, 2009, and for the fiscal year then ended, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Lake Preston School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Lake Preston School District No. 38-3 as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated December 3, 2009 on my consideration of Lake Preston School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on noncompliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of my audit.

The Lake Preston School District No 38-3 has not presented the Management's Discussion and Analysis (MD&A) and Budgetary Comparison Schedules for the General and Special Revenue Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.



December 3, 2009

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$1,158,735	\$250	\$1,158,985
Taxes receivable	505,997	0	505,997
Due from other governments	22,101	3,637	25,738
Inventories	16,396	2,299	18,695
Capital Assets:			
Land	3,251	0	3,251
Other capital assets, net of depreciation	1,181,020	0	1,181,020
<b>TOTAL ASSETS</b>	<b>\$2,887,500</b>	<b>\$6,186</b>	<b>\$2,893,686</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts payable	\$75,950	\$0	\$75,950
Other current liabilities	194,956	671	195,627
Deferred revenue	505,184	730	505,914
Noncurrent Liabilities:			
Due within one year	48,309	0	48,309
Due in more than one year	52,566	0	52,566
<b>TOTAL LIABILITIES</b>	<b>876,965</b>	<b>1,401</b>	<b>878,366</b>
<b>NET ASSETS:</b>			
Invested in capital assets	1,184,271	0	1,184,271
Restricted for:			
Capital outlay	347,152	0	347,152
Special education	146	0	146
Pension	3,169	0	3,169
Food service	0	4,785	4,785
Unrestricted	475,797	0	475,797
<b>TOTAL NET ASSETS</b>	<b>2,010,535</b>	<b>4,785</b>	<b>2,015,320</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$2,887,500</b>	<b>\$6,186</b>	<b>\$2,893,686</b>

The accompanying notes to financial statements  
are an integral part of this statement.



**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$1,421,355	\$0	\$339,363
Support services	967,568	20,339	19,066
Cocurricular activities	105,787	17,705	0
Total Governmental Activities	2,494,710	38,044	358,429
Business-type Activities:			
Food service	95,956	58,736	45,107
TOTAL	\$2,590,666	\$96,780	\$403,536

GENERAL REVENUES:

Property tax  
Gross receipts tax  
State aid  
Unrestricted investment earnings  
Other general revenues

TRANSFERS

Total general revenues  
and transfers

Change in net assets

Net Assets (deficit)-beginning

NET ASSETS-ending

The accompanying notes to financial statements  
are an integral part of this statement.

NET (EXPENSE) REVENUE AND  
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$1,081,992)	\$0	(\$1,081,992)
(928,163)	0	(928,163)
(88,082)	0	(88,082)
(2,098,237)	0	(2,098,237)
0	7,887	7,887
(2,098,237)	7,887	(2,090,350)
1,020,465	0	1,020,465
14,791	0	14,791
741,693	0	741,693
15,856	95	15,951
19,511	0	19,511
95	(95)	0
1,812,411	0	1,812,411
(285,826)	7,887	(277,939)
2,296,361	(3,102)	2,293,259
\$2,010,535	\$4,785	\$2,015,320

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2009**

	General Fund	Capital Outlay Fund	Special Education Fund
<b>ASSETS:</b>			
Cash and cash equivalents	\$761,335	\$375,955	\$17,656
Advance payments	1,000	0	0
Taxes receivable-current	299,588	106,343	74,442
Taxes receivable-delinquent	5,815	2,529	1,128
Due from other governments	16,751	1,162	4,015
Inventory of supplies	16,396	0	0
<b>TOTAL ASSETS</b>	<b>\$1,100,885</b>	<b>\$485,989</b>	<b>\$97,241</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities:</b>			
Accounts payable	\$40,310	\$32,494	\$3,146
Contracts payable	133,759	0	15,148
Payroll deductions and withholding and employer matching payable	41,690	0	4,359
Deferred revenue	314,269	108,872	75,570
<b>TOTAL LIABILITIES</b>	<b>530,028</b>	<b>141,366</b>	<b>98,223</b>
<b>Fund balances:</b>			
Reserved for inventory	16,396	0	0
<b>Unreserved:</b>			
Designated for FY 2010 budget	34,465	0	0
Undesignated (deficit)	519,996	344,623	(982)
<b>TOTAL FUND BALANCE</b>	<b>570,857</b>	<b>344,623</b>	<b>(982)</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$1,100,885</b>	<b>\$485,989</b>	<b>\$97,241</b>

The accompanying notes to financial statements are an integral part of this statement

Pension Fund	Total Governmental Funds
\$2,789	\$1,157,735
0	1,000
15,945	496,318
207	9,679
173	22,101
0	16,396
<u>\$19,114</u>	<u>\$1,703,229</u>

\$0	\$75,950
0	148,907
0	46,049
16,152	514,863
<u>16,152</u>	<u>785,769</u>

0	16,396
0	34,465
2,962	866,599
<u>2,962</u>	<u>917,460</u>
<u>\$19,114</u>	<u>\$1,703,229</u>

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT**  
**OF NET ASSETS**  
**JUNE 30, 2009**

Total Fund Balances-Government Funds	\$917,460
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds	9,679
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	1,184,271
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Long-term liabilities, such as capital leases payable, are not reported in the funds because they are not payable in the current period.	<u>(100,875)</u>
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Net Assets-Governmental Funds	<u><u>\$2,010,535</u></u>
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The accompanying notes to financial statements are an integral part of this statement

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	General Fund	Capital Outlay Fund	Special Education Fund
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$613,959	\$215,912	\$151,132
Prior year's ad valorem taxes	2,695	673	453
Gross receipts taxes	14,791	0	0
Penalties and interest	1,089	345	235
Earnings on deposits:			
Interest earned	10,528	4,945	319
Cocurricular activities:			
Admissions	16,684	0	0
Other	1,021	0	0
Other revenues from local sources:			
Medicaid fees	11,920	0	8,419
Donations	433	500	0
Other	7,103	0	0
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	11,475	0	0
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	741,693	0	0
Restricted grants-in-aid	0	19,066	98,407
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	199,056	0	41,900
Total Revenue	<u>\$1,632,447</u>	<u>\$241,441</u>	<u>\$300,865</u>

The accompanying notes to financial statements are an  
integral part of this statement.

Pension Fund	Total Governmental Funds
\$32,370	\$1,013,373
97	3,918
0	14,791
51	1,720
64	15,856
0	16,684
0	1,021
0	20,339
0	933
0	7,103
0	11,475
0	741,693
0	117,473
0	240,956
\$32,582	\$2,207,335

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	General Fund	Capital Outlay Fund	Special Education Fund
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$513,301	\$27,215	\$0
High school	397,102	180,047	0
Preschool	21,987	0	0
Special Programs:			
Programs for special education	0	0	162,306
Educationally deprived	35,865	0	0
Support Services:			
Pupils-			
Attendance and social work	953	0	0
Guidance	48,536	0	860
Health	220	0	0
Psychological	0	0	16,331
Speech pathology	0	0	32,663
Student therapy	0	0	27,505
Instructional staff-			
Improvement of instruction	1,467	0	0
Educational media	74,302	0	0
General administration-			
Board of education	33,959	6,503	0
Executive administration	119,138	0	0
School administration-			
Office of the principal	70,591	0	0
Business-			
Fiscal services	53,966	0	0
Operation and maintenance of plant	203,103	61,461	0
Pupil transportation	45,863	541	0

The accompanying notes to financial statements are an  
integral part of this statement.



Pension Fund	Total Governmental Funds
\$15,576	\$556,092
15,575	592,724
0	21,987
0	162,306
0	35,865
0	953
0	49,396
0	220
0	16,331
0	32,663
0	27,505
0	1,467
0	74,302
0	40,462
0	119,138
0	70,591
0	53,966
0	264,564
0	46,404

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	General Fund	Capital Outlay Fund	Special Education Fund
Central:			
Staff	\$965	\$0	\$0
Special Education			
Administrative costs	0	0	18,008
Other	0	0	63,830
Debt Service	0	57,199	0
Cocurricular activities:			
Male activities	24,044	0	0
Female activities	20,835	0	0
Transportation	15,482	0	0
Combined activities	30,847	4,102	0
Capital outlay	0	71,792	0
Total Expenditures	<u>1,712,526</u>	<u>408,860</u>	<u>321,503</u>
Excess of Revenues over (under) Expenditures	(80,079)	(167,419)	(20,638)
Other Financing Sources (Uses):			
Transfers-in	5,423	0	0
Transfers-out	0	(4,945)	(319)
Proceeds of long-term debt	0	158,074	0
Net Change in Fund Balances	(74,656)	(14,290)	(20,957)
FUND BALANCE, JULY 1, 2008	<u>645,513</u>	<u>358,913</u>	<u>19,975</u>
FUND BALANCE, JUNE 30, 2009	<u><u>\$570,857</u></u>	<u><u>\$344,623</u></u>	<u><u>(\$982)</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

Pension Fund	Total Governmental Funds
\$0	\$965
0	18,008
0	63,830
0	57,199
0	24,044
0	20,835
0	15,482
0	34,949
0	71,792
31,151	2,474,040
1,431	(266,705)
0	5,423
(64)	(5,328)
0	158,074
1,367	(108,536)
1,595	1,025,996
\$2,962	\$917,460

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Net Changes in Fund Balances-Total Governmental Funds	(\$108,536)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report property taxes as revenue when cash is received or within 60 days after year-end, but the statement of activities includes the property taxes as revenue when they are levied, to the extent they are intended to finance the applicable current year	1,454
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(77,869)
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Government funds report the proceeds of long-term debt as a financial source. However, in the statement of activities, these proceeds are reported as a liability.	(158,074)
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Governmental funds report the payment of long-term debt principal as an expenditure, but the statement of activities reports these payments as the reduction of a liability.	<u>57,199</u>
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Change in Net Assets of Governmental Activities	<u><u>(\$285,826)</u></u>
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The accompanying notes to financial statements are an integral part of this statement

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**BALANCE SHEET-PROPRIETARY FUNDS**  
**JUNE 30, 2009**

	<u>ENTERPRISE FUND</u>
	Food Service Fund
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$250
Due from other governments	3,637
Inventory of supplies	384
Inventory of stores purchased for resale	1,084
Inventory of donated food	831
Total Current Assets	<u>6,186</u>
Noncurrent Assets:	
Capital Assets:	
Machinery and equipment	4,200
Accumulated depreciation	<u>(4,200)</u>
Total Noncurrent Assets	<u>0</u>
TOTAL ASSETS	<u><u>\$6,186</u></u>
LIABILITIES	
Current Liabilities:	
Payroll deductions payable	\$671
Deferred revenue	730
Total Liabilities	<u>1,401</u>
NET ASSETS:	
Unrestricted net assets	<u>4,785</u>
Total Net Assets	<u>4,785</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$6,186</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>ENTERPRISE FUND</u>
	Food Service Fund
Operating Revenue:	
Sales:	
To pupils	\$52,315
To adults	6,421
Total Operating Revenue	<u>58,736</u>
Operating Expenses:	
Salaries	39,401
Employee benefits	10,810
Purchased services	1,381
Supplies	1,962
Cost of sales-purchased food	34,736
Cost of sales-donated food	7,666
Total Operating Expenses	<u>95,956</u>
Operating Income (Loss)	<u>(37,220)</u>
Nonoperating Revenue (Expense):	
Local Sources:	
Interest income	95
State Sources:	
Cash reimbursements	493
Federal Sources:	
Cash reimbursements	37,077
Donated food	7,537
Total Nonoperating Revenue	<u>45,202</u>
Change in Net Assets before Transfers	7,982
Transfers-out	<u>(95)</u>
Change in Net Assets	7,887
Net Assets (deficit)-beginning	<u>(3,102)</u>
NET ASSETS-ending	<u><u>\$4,785</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>ENTERPRISE FUNDS</u>
	Food Service Fund
Cash Flows from Operating Activities:	
Receipts from customers	\$58,520
Payments to suppliers	(39,197)
Payments to employees	<u>(57,665)</u>
Net Cash Provided (Used) by Operating Activities	(38,342)
Cash Flows from Noncapital Financing Activities:	
Operating subsidies	33,933
Transfers out	(95)
Cash Flows from Investing Activities:	
Interest received	<u>95</u>
Net Decrease in Cash and Cash Equivalents	<u><u>(\$4,409)</u></u>
Cash and Cash Equivalents at Beginning of Year	4,659
Cash and Cash Equivalents at End of Year	<u>250</u>
Net Decrease in Cash and Cash Equivalents	<u><u>(\$4,409)</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Food Service Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	(\$37,220)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Commodities used	7,666
Changes in Assets and Liabilities:	
Deferred revenue	(216)
Inventories	(548)
Payables	<u>(8,024)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$38,342)</u></u>
Noncash Investing, Capital and Financing Activities:	
Value of commodities received	<u><u>\$7,537</u></u>

The accompanying notes to financial statements  
are an integral part of this statement.



**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS**  
**JUNE 30, 2009**

	Private-purpose Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	\$2,562	\$27,865
Investments	29,427	0
Total Assets	<u>\$31,989</u>	<u>\$27,865</u>
LIABILITIES:		
Amounts held for others	\$0	\$27,865
NET ASSETS:		
Held in trust for scholarships	<u>31,989</u>	<u>0</u>
Total Liabilities and Net Assets	<u>\$31,989</u>	<u>\$27,865</u>

The accompanying notes to financial statements are an  
integral part of this statement.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS**  
**FOR YEAR ENDED JUNE 30, 2009**

	<u>Private-purpose Trust Funds</u>
ADDITIONS:	
Contributions and donations	<u>\$5,596</u>
Total Additions	<u>5,596</u>
DEDUCTIONS:	
Trust deductions for scholarships	<u>6,235</u>
Total Deductions	<u>6,235</u>
Change in Net Assets	(639)
Net Assets-beginning	<u>32,628</u>
NET ASSETS-ending	<u><u>\$31,989</u></u>

The accompanying notes to financial statements are an  
integral part of this statement.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the school district conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Lake Preston School District No. 38-3, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The school district participates in a cooperative service unit with twenty-four other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

b. Basis of Presentation, Basis of Accounting:

**Basis of Presentation:**

*Government-wide Statements:* The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity, except

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

for fiduciary funds. These statements distinguish between the *governmental and business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental,

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below within their respective fund types:

**Governmental Funds:**

**General Fund** - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

**Special Revenue Fund Types** - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. The fund is financed by property taxes. This is a major fund.

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund - a fund established by SDCL 13-10-6 to account for financial resources to be used for the payment of early retirement contracts or the District's share of retirement plan contributions. This fund is financed by property taxes. This is a major fund.

**Proprietary Funds:**

Enterprise Funds - enterprise funds are used to accounted for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The proprietary funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

**Fiduciary Funds:**

Fiduciary funds are never considered to be major funds.

Private-purpose Trust Funds - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The school district maintains only the following private-purpose trust funds:

Scholarship trusts (five separate trusts established by donors to provide for college scholarships to graduating students).

Agency Funds - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations.

The district maintains agency funds for the following purposes:

Class clubs (such as FFA, Seniors, Juniors, student council)

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe 'how' transactions are recorded within the various financial statements. Basis of accounting refers to 'when' revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement Focus:**

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the 'current financial resources' measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the 'economic resources' measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

**Basis of Accounting:**

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can



**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Lake Preston School District No. 38-3, the length of that cycle is 60 days. The revenues that are accrued at June 30, 2009 are for federal reimbursement grants due from the State of South Dakota, taxes due from Kingsbury County and miscellaneous other revenues.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The government business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications:

*Government-wide Financial Statements:*

In the process of aggregating data for the government-wide financial statements, some amount reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

*Fund Financial Statements:*

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources".

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in government-wide or fund financial statements.

Government-Wide Statements: All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2009 balance of capital assets for governmental activities includes approximately 10 percent for which the costs were determined by estimates of the original costs. These estimated original costs were established by comparison to historical data of similar assets. The total June 30, 2009 balance of capital assets for business-type activities are all valued at original cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Governmental Activities:			
Land	ALL	-	-
Buildings	\$25,000	Straight-line	15-50 yrs
Machinery and Equipment	\$ 5,000	Straight-line	4-20 yrs
Business-type Activities:			
Equipment	\$ 300	Straight-line	12 yrs

Land, an inexhaustible capital asset, is not depreciated.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of capital leases payable.

In the fund financial statements, the debt proceeds are reported as revenues (other financing sources) and payment of principle and interest reported as expenditures when the become due. The accounting for proprietary fund long-term is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

All interest expense on long-term debt is reported as a separate line on the "Statement of Activities."

g. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

revenues are classified into three categories, as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents:

The school district pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted: or "invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets:

It is the School District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type.

Investments - in General, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

No investments held as of June 30, 2009, except for certificates of deposit held by the Scholarship Funds.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (Continued):

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk.

As of June 30, 2009, the District had no deposits in financial institutions that were exposed to custodial credit risk.

Interest Rate Risk - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the General Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.



**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

3. RECEIVABLES AND PAYABLES:

Receivables and payables are not aggregated in these financial statements. The District expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been established.

4. INVENTORY:

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the Government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the fund financial statements, inventories in the General and Capital Outlay Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Inventories in the Proprietary Funds are also recorded as an expense when they are consumed.

5. DEFERRED REVENUE:

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

6. PROPERTY TAXES:

Property taxes are levied on or before each October 1, attached as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period".

7. CHANGES IN CAPITAL ASSETS:

A summary of the changes in capital assets for the year ended June 30, 2009 is as follows:

	Balance <u>7/01/08</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/09</u>
Government Activities:				
Capital Assets				
not being				
depreciated				
Land	\$ 3,251	\$ -	\$ -	\$ 3,251
Capital Assets				
being depreciated				
Buildings	1,694,745	-	71,220	1,623,525
Machinery and				
Equipment	<u>576,144</u>	<u>71,792</u>	<u>29,566</u>	<u>618,370</u>
Total, being				
depreciated	<u>2,270,889</u>	<u>71,792</u>	<u>100,786</u>	<u>2,241,895</u>

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

7. CHANGES IN CAPITAL ASSETS (continued)

	<u>Balance</u> <u>7/01/08</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/09</u>
Less accumulated				
Depreciation:				
Buildings	\$ 714,978	\$ 109,780	\$ 71,220	\$ 753,538
Machinery and				
Equipment	<u>297,022</u>	<u>39,881</u>	<u>29,566</u>	<u>307,337</u>
Total	<u>1,012,000</u>	<u>149,661</u>	<u>100,786</u>	<u>1,060,875</u>
Total capital assets				
being depreciated,				
net:	<u>1,258,889</u>	<u>(77,869)</u>	<u>-</u>	<u>1,181,020</u>
Governmental activity				
capital assets,				
net:	<u>\$1,262,140</u>	<u>\$ (77,869)</u>	<u>-</u>	<u>\$1,184,271</u>
Business-type activities				
Machinery and				
Equipment	4,200	-	-	4,200
Accumulated				
Depreciation	<u>(4,200)</u>	<u>-</u>	<u>-</u>	<u>(4,200)</u>
Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was changed to functions as follows:

Governmental activities:	
Instruction	\$ 52,381
Support Services	86,803
Cocurricular Activities	<u>10,477</u>
	<u>\$ 149,661</u>

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

8. LONG-TERM LIABILITIES

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Capital Lease	\$ -	\$158,074	\$57,199	\$100,875	\$48,309
Total	\$ -	\$158,074	\$57,199	\$100,875	\$48,309

Liabilities payable at June 30, 2009 is comprised of the following:

**FINANCING (CAPITAL ACQUISITION) LEASE:**

Laptop computers, due in annual installments  
Of \$57,199, including 8.48% interest, matures  
June 30, 2011, payments to be made by  
the Capital Outlay Fund.

\$ 100,875

The purchase price at the  
commencement of the financing  
(capital acquisition was:

Principal	\$158,074
Interest	13,523
	<u>\$171,597</u>

The annual requirements to amortize all debt outstanding as of June 30, 2009, excluding accrued leave follows:

Annual Requirements to Amortize Long-term Debt

<u>Year Ending</u> <u>June 30,</u>	<u>FINANCING (Capital Acquisition) Lease</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 48,309	\$ 8,890	\$ 57,199
2011	<u>52,566</u>	<u>4,633</u>	<u>57,199</u>
Total	<u>\$ 100,875</u>	<u>\$ 13,523</u>	<u>\$ 114,398</u>

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

9. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Fund	Law	\$347,152
Special Education Fund	Law	146
Pension Fund	Law	3,169
Food Service	Federal Regulation	<u>4,785</u>
Total Restricted Net Assets:		<u>\$355,252</u>

10. RETIREMENT PLAN

All employees, except for classified employees, participate in the South Dakota Retirement System (SDRS), a cost sharing, and multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after threes of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Lake Preston , SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also required the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$73,664, \$69,795, and \$65,263 respectively, equal to the required contributions each year.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

11. JOINT VENTURES

The school district participates in the Northeast Educational Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education and other services to the member school districts.

The members of the co-op and their relative percentage of participation in the co-op are the following school districts:

Arlington School District	4%
Britton-Hecla School District	6%
Castlewood School District	3%
Clark School District	5%
DeSmet School District	3%
Deubrook School District	4%
Deuel School District	6%
Elkton School District	4%
Enemy Swim School District	2%
Estelline School District	4%
Florence School District	3%
Grant-Deuel School District	3%
Hamlin School District	7%
Henry School District	2%
Iroquois	2%
Lake Preston School District	3%
Rosholt School District	2%
Sioux Valley School District	6%
Sisseton School District	12%
Summit School District	2%
Waubay School District	2%
Waverly School District	3%
Webster School District	6%
Willow Lake School District	3%
Wilmot School District	3%
	<u>100%</u>

The co-op's governing board is composed of one representative from each member school district who is a school board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

11. JOINT VENTURES (continued)

The school district retains no equity in the net assets of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Northeast Educational Services Cooperative, Hayti, South Dakota.

As of June 30, 2009, this joint venture had a total fund equity of \$935,628 and no long-term debt.

12. RISK MANAGEMENT

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2009, the school district managed its risks as follows:

Employee Health Insurance:

The school district purchases health insurance for its employees from a commercial insurance carrier. Settled claims from these risks have not exceeded the liability coverage over the past three years.

Liability Insurance:

The school district purchases liability insurance for risks related to torts; theft of or damage to property; and errors and omission of public officials from a commercial insurance carrier. Settled claims from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The School has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

**LAKE PRESTON SCHOOL DISTRICT NO. 38-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

12. RISK MANAGEMENT (continued)

During the year ended June 30, 2009, no claims were paid for unemployment benefits. At June 30, 2009, no claims had been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

Workmen's Compensation Insurance:

The school district purchases liability insurance for workmen's compensation from a commercial carrier. Settled claims from these risks have not exceeded the liability coverage over the past three years.

13. INTERFUND TRANSFERS

Transfers to the General Fund were made during fiscal year 2009 as follows:

Capital Outlay Fund	\$ 4,945
Special Education Fund	319
Pension Fund	64
Food Service Fund	<u>95</u>
Total	<u>\$ 5,423</u>

The purpose of these transfers was to move all earnings from deposits and investments to the General Fund, per the School District's policy.

14. DEFICIT FUND BALANCE

The Special Education Fund had a deficit fund balance of \$982 as of June 30, 2009. The School District officials intend to eliminate this deficit in fiscal 2010 by requesting additional state aid (for extraordinary costs) from the State of South Dakota.



**LAKE PRESTON SCHOOL DISTRICT No. 38-3**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**  
**JUNE 30, 2009**

FINDING NUMBER 2009-01

A significant deficiency and material weakness is present due to a lack of segregation of duties in revenue, expenditure and payroll functions.

CRITERIA: To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT: Inaccurate financial statements and/or misappropriation of funds could result from a lack of segregation of duties.

RECOMMENDATION: Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

MANAGEMENT RESPONSE: The School Board and Superintendent agree with the finding and are responsible for the corrective action plan. This comment is a result of the size of the Lake Preston School District No. 38-3 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Lake Preston School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Lake Preston School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures, and payroll functions continues to exist.

**LAKE PRESTON SCHOOL DISTRICT No. 38-3**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**JUNE 30, 2009**

FINDING NO. 2007-01 and 2008-01

A material weakness was reported due to a lack of segregation of duties. This condition was first reported by this auditor in 1990.

Status as of June 30, 2009:

The condition noted in prior audits is still applicable.